



Discover the UK's most luxurious properties

SEARCH NOW

UK launch partner Sotheby's INTERNATIONAL REALTY

Heart of darkness

The ENRC scandal shames regulators and the grandees who sat on its board

Denny Fortson

April 28 2013, 1:01 am,
The Sunday Times



Share



Save ☆

The letter landed with a stack of others on Beat Ehrensberger's desk 16 days ago. It might as well have been a hand grenade.

The 41-year-old Swiss lawyer with a gleaming bald pate and dark-rimmed glasses had been at ENRC for more than a decade. As general counsel, he knew the £3.5bn FTSE 100 mining giant inside out.

A fortnight earlier, the company had sacked Dechert, the City law firm, from an investigation into corruption allegations at ENRC, just days before it was to update the Serious Fraud Office on its progress. The letter was Dechert's reply to the dismissal. It was explosive.

The eight pages detail an astonishing catalogue of alleged corruption, including "payments to African presidents" and \$35m (£23m) in cash "misappropriated" when ENRC bought a copper mine in the Congo.

It was further alleged that a probe into operations in Kazakhstan was hindered by "false documents ... evidence of document destruction, and obstruction ... including the creation of a false office". It added: "Electronic wiping tools were used by employees."



Discover the UK's most luxurious properties

SEARCH NOW

UK launch partner

Sotheby's INTERNATIONAL REALTY

The revelation of Dechert's letter sets the seal on what has quickly become one of Britain's biggest corporate scandals, raising questions not only over alleged wrongdoing at ENRC but also corporate governance failings and the "light-touch" regulatory regime that allowed it to join the FTSE 100.

On his dismissal, one director famously branded the company 'more Soviet than City'. Big names in British business who sat on the board while the company ran amok also face severe damage to their reputations, as do the banks and brokers that brought ENRC to market.

executives who had seen it resigned. Victor Hanna, whom Dechert recommended be suspended from his position as head of Africa operations, took voluntary leave of absence.

A week later, the trio of central Asian tycoons who founded the company — and still own 44% of its shares — hurried out an announcement of a half-formed plan to buy back the group and delist it.

Mehmet Dalman, the former investment banker appointed chairman last year with a house-cleaning mandate, resigned.

The SFO decided it had to act. It had been keeping tabs on the company's "self-report" process for the past two years, and on Thursday it launched a formal criminal investigation into "fraud, bribery, and corruption", and served Dechert with a "Section 2" request. This gives it powers to, "interview people, require them to produce material, or search premises".

The SFO will soon have everything that Dechert uncovered.

When it floated in 2007, ENRC, with 65,000 employees and a portfolio of world-class ferrochrome and iron ore mines across the steppes of central Asia, burnished London's reputation as the preferred destination for the top resources companies.

The UK Listing Authority was so desperate to lure the Kazakh giant that it bent its own rules to allow the founders to sell fewer shares in the offering — and thus maintain tighter control — than normal. Sir Hector Sants, then head of the Financial Services Authority, signed off on the deal.

To assure potential investors that the company would adhere to London's higher corporate governance standards, ENRC appointed a gaggle of City grandees to its board. Among them were Sir David Cooksey, the former Bank of England director who became its £500,000-a-year chairman; Sir Richard Sykes, the former chairman of Glaxo Smith Kline; and Sir Paul Judge, who founded Cambridge University's business school.

ENRC'S predicament can be traced back three summers to a derelict mine outside Kolwezi in the south of the Democratic Republic of Congo.

First Quantum, a Canadian mining company, had spent \$700m to bring the site, a bedraggled copper project once owned by the state mining company, back to the brink of production. It would have been a boon for the Congo, whose 75m people earn just over 50p a day, on average.

Yet just as it was about to start production, the government of Joseph Kabila nationalised Kolwezi. The same day, it was sold to a joint venture controlled by Dan Gertler, an Israeli tycoon and Kabila's close friend. The deal caused outrage. First Quantum took its case to the International Court of Arbitration in Paris.

So when ENRC announced in August 2010 that it had paid \$175m to buy a controlling stake in Kolwezi and a handful of other mines controlled by Gertler, investors were shocked. It was the sort of deal that Sykes and Judge were supposed to prevent.

Investors didn't know the worst, according to Dechert. In its letter, the law firm said that it had "found evidence that documents had been falsified, the CFO of ENRC plc (and her team) had been misled, and that \$35m had been misappropriated".

Gertler declined to comment.

Back then, however, the board was unaware of the alleged wrongdoing. Sykes, the senior independent director, defended the deal. He told The Sunday Times: "If we didn't buy it, someone else would have. We legally bought an asset from someone who was selling it."

Investors were unconvinced and the shares began to sink amid growing concerns about ENRC's corporate governance.

A boardroom rift deepened several months later when a whistleblower made allegations of widespread corruption in the company's core Kazakh operations. Six months after launching an internal investigation, Sykes and Ken Olisa, another director, were voted off the board.

The coup was orchestrated by the three founders — Alexander Mashkevich, Patokh Chodiev, and Alijan Ibragimov. They voted their 44% and were supported by the government of Kazakhstan, which owned 12%, and rival miner Kazakhmys, which held 26%.

On his dismissal, Olisa famously branded the company "more Soviet than City".

When Dalman was appointed chairman last February, it was meant to signal a clean slate. The urbane former investment banker, a Turk born in Cyprus and brought up in England, had been on the board since its float. Sources close to Dalman said he thought he could form a bridge between the board and the Kazakh tycoons. His mandate was to clean up ENRC and close the growing discount at which it traded relative to rivals.

Dalman formed a special investigation committee, which comprised himself, independent director Terence Wilkinson and Felix Vulis, the chief executive.

The scope of the inquiry soon widened beyond Kazakhstan as allegations trickled in about potential irregularities related to three acquisitions in Africa.

These included the 2009 deal to buy Camec, the African miner founded by former England spin bowler Phil Edmonds, and the 2010 purchase of Chambishi, a \$300m copper smelter in Zambia.

Based on interviews with ENRC employees and company documents, Dechert found that the Camec purchase, "involved possible breaches of financial sanctions".

On Chambishi, the law firm claimed to have discovered that "a senior executive had falsely altered inputs into the valuation model, which was relied upon by advisers to the company and board".

It added: "Further information from a whistleblower, together with documentary evidence regarding the making of cash payments to African presidents was to be provided (including that the payment(s) had been sanctioned by a senior executive)".

ENRC said there was "no evidence" to back up the charges.

Skeletons began falling out of other corners of ENRC's cupboard. Last month allegations from the Kazakh investigation were leaked to the press, including claims that a subsidiary had handed contracts worth \$100m to companies linked to family members of Zaurbekova, the chief financial officer.

The charges were later dismissed by the company, which said that Zaurbekova was unaware of the deals.

relation to the Kazakh investigation? The company said:
"Disciplinary action has been taken against people involved in misleading ENRC's investigation."

The net, however, appeared to be tightening.

In the middle of last month Dechert briefed ENRC's special committee on its findings over the Africa deals. It said it would bring the SFO up to date at a meeting on April 3.

The fraud watchdog had, to that point, agreed to stand back on the condition that ENRC was genuine in its desire to clean up. The welter of evidence Dechert was about to drop on it might well have forced the SFO to act.

A week before Dechert was set to bring the watchdog up to speed, ENRC fired the firm.

THE announcement by Mashkevich came three weeks later. In a terse stock exchange announcement he revealed that he was considering teaming up with the Kazakh government and his fellow founders to bid for ENRC. It brought a brief respite in the steady downward spiral of the share price.

In the nearly three years since ENRC's first foray into the Congo, its shares have dropped 75%. What was once a £13bn behemoth is now seen as £3.5bn of damaged goods.

Since only 18% of the shares are held by independent investors, Mashkevich and Co would need relatively little money, about £700m, to end its disastrous London outing. Yet it is unclear what bearing, if any, the deal would have on the SFO investigation.

The timing of Dechert's dismissal raised questions about ENRC's commitment to the process. It is thought that Dechert billed millions of pounds for its work on the internal probe and ENRC was dissatisfied with the pace of progress.

The company also cited "improper communications" with the SFO, "unprofessional" handling of the case, and "unauthorised" leaks to the press.

Dechert, which declined to comment for this story, denied all allegations in its letter.

What seems clear is that with ENRC facing a criminal investigation and an uncertain future, investors are likely to welcome an end to their misery, even if it does come in the form of a low-ball bid.

It wasn't that long ago that the company still had its defenders. In an interview with The Sunday Times in 2010, Sir Richard Sykes rebutted criticism of ENRC's adventures in Africa and elsewhere.

"People think that if it's the Congo it must be corrupt, and if it is Kazakh with only 18% free-floated, it must be bad," he said. "It makes a wonderful story, but is it fact or is it fiction?"

He may soon have his answer.

■ When The Sunday Times first reported the revolt among City investors over ENRC's 2010 purchase of a disputed copper mine in the Democratic Republic of Congo ("[City fury at Sykes Congo deal](#)"), we had only the faintest inkling of where it might lead.

Since then Sir Richard Sykes, the deal's biggest defender, has been forced out, as has Ken Olisa, an independent director.

"misappropriated funds" related to the transaction. Last week the Serious Fraud Office launched a criminal investigation, on the heels of a mini-exodus of top executives and directors.

These included Jim Cochrane, the long-serving chief operating officer, and chairman Mehmet Dalman. Victor Hanna, the head of Africa operations, took a voluntary leave of absence. The company confirmed that Sir Paul Judge will step down in June, as will Dieter Ameling, another independent director.

The fate of ENRC could now be determined by new chairman Gerhard Ammann, a Swiss former accountant who runs a small private bank in Zurich called Bank von Roll.

Share  
Save 



Festivals and events that are perfect for a stress-free day trip

SPONSORED



5 key summer trends to travel in style

SPONSORED

[^ BACK TO TOP](#)

GET IN TOUCH

Contact us Help

The Times Editorial Complaints The Sunday Times Editorial Complaints

Place an announcement Classified advertising

Display advertising The Times corrections

The Sunday Times corrections

MORE FROM THE TIMES AND THE SUNDAY TIMES

The Times e-paper The Sunday Times e-paper Times Currency Services The Sunday Times Wine Club

The Times Dining Times Print Gallery The Times Archive Times Crossword Club

Sunday Times Driving Times+ The Sunday Times Rich List Insider City Guides

Good University Guide Schools Guide The Brief Best Places to Live

Best Places to Stay Announcements Times Appointments

© Times Newspapers Limited 2018.
Registered in England No. 894646. Registered office: 1 London Bridge Street, SE1 9GF.

[Privacy & cookie policy](#) [Licensing](#) [Site Map](#) [Topics](#) [Commissioning Terms](#) [Terms and conditions](#)



Revealed: scandal at heart of ENRC

A sacked lawyer's secret letter claims the FTSE 100 miner paid off presidents and tried to block a fraud probe

Danny Fortson
April 28 2017, 10:11am
The Sunday Times



Law firm Dechert looked into ENRC operations in Europe and Africa for more than two years

Share Save

AN INTERNAL fraud probe at ENRC discovered evidence of widespread corruption at the FTSE 100 miner, including "payments to African presidents", \$35m of "misappropriated" cash and "document destruction" by staff trying to derail the inquiry.

The explosive claims, which are denied by the company, were made by Dechert, the City law firm, in an eight-page letter it sent to ENRC after being fired last month from its role leading the internal inquiry.

The Serious Fraud Office last week launched a criminal investigation into ENRC. The alleged wrongdoing found by Dechert, which spent more than two years looking into the miner's operations in Kazakhstan and Africa, could form the basis of the SFO's probe. It has served Dechert with a Section 2 notice, which requires the firm to hand over documents gathered during its inquiry. Lord Goldsmith, the former attorney-general who is head of European and Asian litigation at Debevoise & Plimpton, has been hired alongside Fulcrum Chambers to offer legal advice to ENRC's board.

The share price has collapsed in recent months amid an exodus of executives and directors and leaks about alleged fraud at its operations in Kazakhstan and Africa.

The criminal investigation threatens to turn ENRC into one of Britain's biggest corporate scandals. It has also called into question the "light-touch" regulatory regime that has brought a rush of foreign firms to the London Stock Exchange.

ENRC fired Dechert at the end of March, just a week before the law firm was set to update the SFO on its findings regarding three

submitted.

The company said it dismissed Dechert for a number of reasons, including "inappropriate communications" with the SFO, alleged "improper billing" and "unprofessional" handling of the investigation.

In its letter of April 12, which has been seen by The Sunday Times, Dechert vehemently denied ENRC's charges. It also gave details of the alleged corruption it had uncovered in the company's operations.

On ENRC's controversial 2010 purchase of a copper mine in the Democratic Republic of Congo, Dechert said it had found "evidence that documents had been falsified, the CFO [chief financial officer] of ENRC (and her team) had been misled, and that \$35m had been misappropriated".

On the purchase of a copper smelter in Zambia, Dechert claimed to have found "documentary evidence regarding the making of cash payments to African presidents".

ENRC denied the charges relating to both deals. "There is no evidence to substantiate these allegations," the company said. It added that it had taken "disciplinary action against people involved in misleading the investigation".

Dechert claimed to have found evidence that company employees actively undermined the inquiry it was carrying out into ENRC's operations in Kazakhstan. This allegedly included "document destruction and obstruction to [the] investigation, including the creation of a false office".

The revelations contained in the letter have left a cloud hanging over the company. Earlier this month Alexander Mashkevich, one of the three central Asian tycoons who founded the miner, announced he and his partners were working with the Kazakh government on a takeover bid. Together they own 56% of the shares.

Takeover Panel rules give them three weeks to table an offer. The shares closed on Friday at 269½p, down nearly a third over the past three months because of weak commodity prices as well as the boardroom upheaval.

Last week Mehmet Dalman, the chairman brought in to clean up the company, resigned. His departure followed the resignation of Jim Cochrane, chief operating officer, and several other executives.

Share   Save 

[BACK TO TOP](#)

GET IN TOUCH

Contact us
The Times Editorial Complaints
Place an announcement
Display advertising
The Sunday Times corrections
Help
The Sunday Times Editorial Complaints
Classified advertising
The Times corrections

MORE FROM THE TIMES AND THE SUNDAY TIMES

The Times e-paper
The Sunday Times e-paper
Times Print Gallery
Times+
Schools Guide
Announcements
Times Currency Services
The Times Archive
The Sunday Times Rich List
Times Appointments
The Sunday Times Wine Club
Times Crossword Club
Friday City Guides
Best Places to Live

© Times Newspapers Limited 2018.

Registered in England No. 894646. Registered office: 1 London Bridge Street, SE1 9GF.

[Privacy & cookie policy](#) [Licencing](#) [Site Map](#) [Topics](#) [Commissioning Terms](#) [Terms and conditions](#)